

Once your application for a mortgage loan has been approved and you have received a commitment letter, the final step before you can call the house your own is the closing, or settlement, of the purchase transaction and mortgage loan. Even though you have signed a purchase agreement and your loan request has been approved, you have no rights to the property, including access, until the legal title to the property is transferred to you and the loan is closed. You should have a good understanding of what is involved in the closing process, because there are a number of things that you can do to make sure that it goes smoothly and on time.

At closing, you will sign the mortgage loan documents, the seller will execute the deed to the property, funds will be collected and disbursed, and the closing agent will record the necessary instruments to give you legal ownership of the property. Settlement of a mortgage loan is a legal process, so specific procedures and requirements will vary according to state and local laws, but a general description of closing practices can help you through the process.

BETWEEN COMMITMENT AND CLOSING

As soon as you receive firm approval, you should confirm the actual date of the loan closing. An estimated closing date was probably specified in the sale contract, but a firm date needs to be set by you, the seller of the property and your lender. You will want to make sure that settlement will take place before your loan commitment expires and before any rate lock agreement (guaranteed terms of the loan) expires.

The settlement date also has to allow adequate time to assemble all of the required documentation. If repairs or maintenance on the property are a part of the lender's commitment, there must be time to complete them. The real estate agents involved in the sale transaction and the lender are often the best people to coordinate the closing arrangements. Most lenders require at least three to five days advance notice of the closing date in order to prepare the loan documents and get them to the closing agent.

There are standard documents and exhibits that are commonly required for a loan closing, regardless of jurisdiction. Some of these will be your responsibility and others will be the responsibility of the seller. The following documents are typically required for closing.

TITLE INSURANCE POLICY

Every lender will require title insurance. The company issuing the title insurance policy will have researched legal records to make sure that you are receiving clear title, or ownership, to the property. Their title search has established that the seller of the property is the legal owner, and that there are no claims, or liens, against the property. The title

company offers both a lender's policy and an owner's policy. You will have to pay for a lender's policy, and it is advisable for you to have an owner's policy as well. For a small additional premium, it will protect you up to the full value of the property if fraud, a lien, or faulty title is discovered after closing.

HOMEOWNER'S INSURANCE

The lender will require you to have homeowners insurance on the property at least in the amount of the replacement cost of the property. You should make sure the policy covers the value of the property and contents in the event they are destroyed by fire or storm. You must pay for the policy and have it at the closing. You are free to select the insurance carrier, but the lender will require the company to meet rating standards and be rated by a recognized insurance rating agency.

TERMITE INSPECTION AND CERTIFICATION

In many areas, the property must be inspected for termites, and the inspection is required in the purchase contract. In some parts of the country, this may be called a "wood infestation" report. The report is required on all FHA and VA loans and many conventional loans.

SURVEY OR PLOT PLAN

Your lender may require a survey of the property, showing the property boundaries, the location of the improvements, any easements for utilities or street right-of-way, and any encroachments on the boundaries by fences or buildings. Encroachments can be minor, such as a fence, or may be serious and have to be corrected before closing. In some areas, an addendum to the title policy eliminates the need for a survey.

WATER AND SEWER CERTIFICATION

If the property is not served by public water and sewer facilities, you will need local government certification of the private water source and sanitary sewer facility. Properties with well and septic water sources are usually governed by county codes and standards.

FLOOD INSURANCE

If the lender or the appraiser determines that the property is located within a defined flood plain, you will want, and the lender will require, a flood insurance policy. The policy must remain in force for the life of the loan.

CERTIFICATE OF OCCUPANCY OR BUILDING CODE COMPLIANCE LETTER

If your home is new construction, you will have to have a Certificate of Occupancy, usually from the city or county, before you can close the loan and move in. The builder will obtain the certificate from the appropriate authority. Many local governments require an inspection when a home is sold to see if the property conforms to local building codes. Code violations may require repairs or replacement of structural or mechanical elements. The responsibility for ordering the inspection and paying for any required repairs should be spelled out in the purchase contract.

OTHER DOCUMENTATION

Additional documentation required for closing will be set out in the commitment letter from the lender and will depend upon terms of the sale, peculiarities of the property, and local ordinances and custom. Examples would include private road maintenance agreements if the street in front of your property is not maintained by a municipality, or proof of sale of your previous home if that was a condition of approval of your loan. Within 24 hours prior to the actual closing, you and your real estate agent should make a final inspection of the property to make sure any required repairs have been completed, all property described in the sale contract, such as kitchen appliances, carpeting and draperies are present, and that no recent fire or storm damage has occurred. In most cases, the lender will make a similar inspection before closing.

THE LOAN CLOSING

The actual loan closing procedure, including who conducts the closing and who is present, depends upon local law and custom and lender practices. Some states require that you be represented by an attorney, but others do not. Even if it is not required by law, you may want to have an attorney review the closing documents.

Some lenders will close the loan in their offices, some will use title or escrow companies and some will send their instructions and documents to their attorney or yours to conduct the closing. As soon as you receive your commitment letter from the lender, you should determine who is responsible for closing arrangements.

The actual closing is conducted by a closing agent who may be an employee of the lender or the title company, or it may be an attorney representing you or the lender. The lender and seller, or their representatives, and the real estate agents may or may not be at the actual closing. It is not unusual for the

parties to the transaction to complete their roles without ever meeting face to face.

The closing agent will have received instructions from the lender on how the loan is to be documented and the funds disbursed, and will have collected all of the necessary exhibits from you, the seller, and the lender. The closing agent will make sure that all necessary papers are signed and recorded, and that funds are properly disbursed and accounted for when the closing is completed.

You typically need to come to the closing with a certified check for the closing costs, including the balance of the down payment. You can get the exact figure a day or two prior to the closing from the lender or the closing agent. You should also bring the homeowners insurance policy and proof of payment, if it has not been delivered earlier.

For the most part, your role at closing is to review and sign the numerous documents associated with a mortgage loan. The closing agent should explain the nature and purpose of each one and give you and/or your attorney an opportunity to check them before signing. A brief description of the major documents may help you understand their purpose and significance.

SETTLEMENT STATEMENT HUD-1 FORM

This form is required by Federal law and is prepared by the closing agent. It provides the details of the sale transaction including the sale price, amount of financing, loan fees and charges, portion of real estate taxes, amounts due to and from buyer and seller, and funds due to third parties such as the selling real estate agent. It must be signed by both buyer and seller and becomes a part of the lender's permanent loan file.

Some of your charges on the HUD-1 may have already been paid, such as credit report and appraisal fees. They will be noted as P.O.C. (paid outside the closing.) You will usually be charged interest on the loan from the date of settlement until the first day of the next month, and your first payment will be due on the first day of the following month. Make sure you know exactly when your first and subsequent payments are due, and what the penalties are for being late.

If your loan is greater than 80 percent of the value of the property, you will probably have to pay for mortgage insurance that protects the lender in case you default. One year's premium will usually run between .5 percent to .75 percent of the loan amount.

In addition to your monthly payments on the loan, most lenders will require you to maintain an "escrow" or "impound" account for real estate taxes and insurance.

Current law permits a lender to collect 1/6th (two months) of the estimated annual real estate taxes and insurance payments at closing. Additionally, real estate taxes for the current year will be prorated between you and the seller and paid at closing. After closing, you will remit 1/12 of the annual amount with each monthly payment. Tax and insurance bills should be sent to the lender who will pay them out of the escrow funds collected.

TRUTH-IN-LENDING STATEMENT

This form is also required by Federal law. You were given an initial TIL shortly after you completed the loan application. If no changes have taken place since that time, the lender need not provide one at closing. If, however there are significant charges, you must receive a corrected TIL no later than the time of the settlement.

THE MORTGAGE NOTE

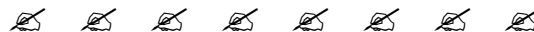
The mortgage note is legal evidence of your indebtedness and your formal promise to repay the debt. It sets out the amount and terms of the loan, and also recites the penalties and steps the lender can take if you fail to make your payments on time.

THE MORTGAGE OR DEED OF TRUST

This is the "security instrument" which gives the lender a claim against your house if you fail to live up to the terms of the mortgage note. It recites the legal rights and obligations of both you and the lender, and gives the lender the right to take the property by foreclosure if you default on the loan. The mortgage or deed of trust will be recorded, providing public notice of the lender's claim (lien) on the property.

MISCELLANEOUS DOCUMENTS

There will be a number of documents or affidavits that you will be asked to sign at the closing. Some are lender requirements (e.g., a statement that you intend to occupy the property as your primary residence), or are required by state or Federal law. These instruments should not be taken lightly. Some provide for criminal penalties for false information, and some may give the lender the right to "call" your loan, which means the entire loan amount becomes immediately due and payable. When everything has been signed and the closing agent is satisfied that all of the instructions for closing have been complied with in full, you become the owner and are given the keys to the property.



Mortgage Loan Closing



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